



**OVERSIGHT OF THE STATE'S
PROCUREMENT CARD PROGRAM**

**From The Office Of State Auditor
Claire McCaskill**

State officials have not implemented effective controls to prevent inappropriate use of state procurement cards.

**Report No. 2002-60
August 29, 2002
www.auditor.state.mo.us**

PERFORMANCE AUDIT



Office of
Missouri State Auditor
Claire McCaskill

August 2002

State credit cards are issued to employees with excessive spending limits and no assessment of who actually needs one, which leaves the state unnecessarily liable

This audit evaluates the state's procurement card purchasing system, in which 2,600 employees have state credit cards for state business purchases. During our audit period, 99 percent of the purchases were made by four departments: conservation, transportation, natural resources and mental health. Auditors analyzed how employees used the cards and departments reviewed these purchases. The state started this program in 1998 to reduce administrative costs of processing small dollar purchases. The following highlights the findings.

Spending limits are too high

Audit analysis showed 1,500 of the employee cardholders only needed a \$1,000 monthly limit, instead of the \$3,000 limit available to each cardholder. In fact, about one-third of the employees seldom or never used their card and 50 percent spent less than \$400 a month. In addition, analysis showed the maximum \$1,000 individual purchase limit as unnecessarily high. About 55 percent of the employees reviewed by auditors had no individual transaction greater than \$299. The state is ultimately liable for all purchases made on these cards and such high limits expose the state to unnecessary risk. (See pages 3 and 6)

Most purchases made without prior review, and some with no review

State card guidelines did not require employees to seek approval for purchases beforehand, unless the purchase exceeded the \$1,000 single transaction limit. As a result, department officials relied on after-the-fact reviews to check for allowable and appropriate purchases. In addition, auditors found no indication of any pre-purchase or post-purchase review by conservation employees. (See page 13)

Employee cardholders did not give preference to Missouri businesses

State law requires purchase preference be given to Missouri products and firms when quality is equal or better and the price is the same or less. Auditors found about \$488,000 in goods purchased from non-Missouri vendors during the audit period. For example, conservation employees routinely bought hunting and fishing equipment from a Nebraska-based vendor when a Missouri-based vendor carried similar products. (See page 11)

YELLOW SHEET

Cards not issued based on job duties

Office of Administration officials allowed departments to decide the number and type of employees who could have cards, resulting in varying practices by department. For example, nearly half (1,037 of 2,107) of the conservation employees have cards, while less than 1 percent (45 of 9,388) of the mental health employees have cards. (See page 4)

Employees buy some unallowable items with cards

State card guidelines prohibit employees from using cards to buy postage stamps, auto repairs, telephone equipment or items for personal use. Auditors found conservation employees bought more than \$2,700 in postage stamps and transportation employees bought more than \$2,600 in auto repairs. In addition, a transportation employee purchased \$10,000 in watches, cutlery, fishing knives, travel cases and beverage coolers for resale in the department's employee catalogue store. Because the employee bought these items for others' personal use and not official state business, state officials called the purchases inappropriate. (See page 11)

Attractive items bought with cards, but not inventoried

Conservation and transportation employees purchased items - including digital cameras, binoculars, television and power tools - considered attractive for personal use, but did not identify or inventory these items as state property, which is required by state regulations. (See page 11)

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CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Jacquelyn D. White, Commissioner
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Over 2,600 state employees have procurement cards which obligate the state to pay for their purchases. The objective of this report was to determine whether (1) the issuance of procurement cards and purchasing limits for state employees were commensurate with their assigned job responsibilities, and (2) employees used procurement cards in accordance with state procurement statutes and regulations. To accomplish these objectives, we reviewed the Office of Administration's procurement card guidelines and analyzed procurement card usage by employees from four departments (conservation, mental health, natural resources, and transportation) between January and June 2001. Our methodology is shown in the Appendix, page 16.

Our review showed officials of the Office of Administration and the four departments reviewed did not assign procurement cards and purchasing limits based on cardholder job responsibilities. For example, all employees had at least a \$3,000 monthly spending limit. Our analysis showed 1,500 of these employees only needed a \$1,000 monthly limit, resulting in unwarranted potential liability to the state. We also found current controls did not ensure employees only procured allowable and appropriate items or gave purchase preference to Missouri businesses.

The audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included tests of the procedures and records as were considered appropriate under the circumstances.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

January 4, 2002 (fieldwork completion date)

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RESULTS AND RECOMMENDATIONS

1. An Excessive Number of Procurement Cards Issued to State Employees and Higher Than Necessary Spending Limits Leave the State Exposed to Unwarranted Liability

Office of Administration (OA) officials, in implementing the state's procurement card program, did not limit the number of employees state departments could issue procurement cards to and allowed the departments to give all employees a standard \$3,000 monthly purchase limit.¹ Although employees can be held accountable for purchasing personal items using state procurement cards, the state is ultimately liable for all purchases made on these cards. At June 30, 2001, about half of the employees in one department had been issued cards, while less than 1 percent in another department had been issued cards. Collectively, four state departments issued procurement cards to over 2,500 employees. Much of the resulting potential liability is unwarranted and exposes the state to unnecessary risk because 1) about one-third of the employees never used their cards or only used them once a month, and 2) 50 percent of the card users spent less than \$400 a month. The standard \$3,000 monthly purchase limit was not based on what employees needed to perform their jobs. In addition, OA personnel have not analyzed spending patterns since the program's inception to show the necessity of such limits.

Procurement Card Program

The OA established the state's procurement card program in 1998 to reduce administrative costs of processing small dollar purchases (\$1,000 or less), and to provide a more convenient and efficient procurement method than the former purchase order system. Under a typical purchase order system, a state employee obtained supervisory approval, prepared a purchase order and took the order to a local merchant to obtain the goods. The merchant would then bill the state for the purchase and the state would pay the merchant during the next payment cycle. Under the procurement card program, employees can take their card directly to a merchant (with or without prior supervisory approval) and procure the needed goods. The merchant electronically bills the procurement card carrier for payment, and the carrier sends the state a single statement for all procurement charges during a one-month period. Accordingly, the state only has to process one payment to the carrier rather than processing hundreds of payments to individual merchants.

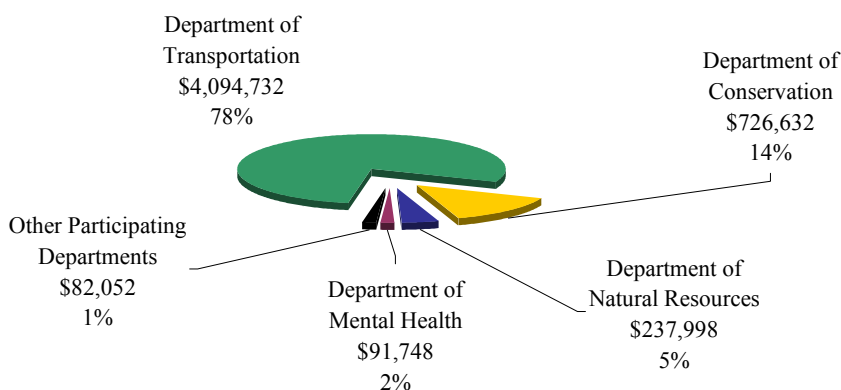
The OA has overall responsibility for administering the state's procurement card program and each participating state department has designated program coordinators. The OA established standard program policies, procedures and purchase dollar limits based on general statutory guidelines for state procurement outlined under Chapter 34, RSMo 2000.

¹ Department of Transportation employees have monthly purchase card limits ranging from \$3,000 to \$25,000.

Four departments have accounted for a majority of procurement card expenditures

Most state departments did not participate in the procurement card program between January and June 2001. During this period, state employees used procurement cards to buy about \$5.2 million in goods. Our analysis shows over 2,500 employees in four departments accounted for 99 percent of all purchases made during this period, with Department of Transportation (transportation) and Department of Conservation (conservation) employees making 92 percent of these purchases as shown in Figure 1.1.²

Figure 1.1: Percentage Breakdown of Total Procurement Card Expenditures



Source: SAO analysis of procurement card data

Departments were not required to justify the cards issued

The OA did not establish any criteria related to the number or type of employees who could have procurement cards. Lacking any guidance, the four departments we reviewed used different approaches in issuing procurement cards to employees. For example, conservation officials allowed first-line supervisors to approve which employees (including part-time employees) received procurement cards and issued the cards to about 50 percent of department employees. On the other hand, Department of Natural Resources (natural resources) officials required senior management approval for all procurement cards and issued cards to only about 13 percent of department employees.

Our review found no documentation the departments analyzed employee purchasing patterns to determine who should receive cards. Table 1.1 shows employee card information by department.

² A total of 11 state departments made purchases with state procurement cards between January 1, 2001, and June 30, 2001 (see Appendix, page 16 for a breakdown by department).

Table 1.1: Employee Procurement Card Holders by Department

Department	Number of Employees	Cards Issued	Percentage with Cards
Transportation	6,508	1,191	18.3
Conservation	2,107	1,037	49.2
Natural Resources	1,758	231	13.1
Mental Health	9,388	45	0.5
All other participating departments	<u>10,012</u>	<u>180</u>	1.8
Totals	<u>29,773</u>	<u>2,684</u>	9.0

Source: SAO analysis of procurement card data

Procurement card spending limits were not based on needs analysis

The OA allowed departments to permit a maximum \$1,000 on a single transaction, with a \$3,000 monthly limit. According to an OA official, the \$1,000 single transaction limit was based on 1) a state statute (Section 34.040, RSMo 2000) that allows purchases less than \$3,000 to be done non-competitively, and 2) an undocumented informal study that showed most individual non-competitive purchases were less than \$1,000.

However, the official explained the procurement card program gives state departments the ability to tailor spending limits for each employee. For example, one employee can have a \$1,000 limit per transaction and \$3,000 total per month; while another employee can have a \$200 limit per transaction and \$500 total per month.

When department officials issued procurement cards to their employees, we found they automatically authorized all employees the \$1,000 single transaction and \$3,000 monthly spending limits and did not analyze past or anticipated employee purchasing patterns to determine these limits. Moreover, OA officials approved transportation officials request for a higher \$3,000 single transaction spending limit for transportation employees, along with higher total monthly spending limits (\$5000, \$10,000, and \$25,000) for the employees. These spending limits were not based on any needs analysis. Table 1.2 shows the monthly spending limits for each department, and total potential monthly and annual liability to the state.

Table 1.2: Potential Maximum Credit Liability by Department

Department	Cards Issued	Monthly Credit Limits	Monthly Liability	Annual Liability
Transportation	113	\$25,000	\$ 2,825,000	\$ 33,900,000
Transportation	701	\$10,000	7,010,000	84,120,000
Transportation	377	\$ 5,000	1,885,000	22,620,000
Conservation	1,037	\$ 3,000	3,111,000	37,332,000
Natural Resources	231	\$ 3,000	693,000	8,316,000
Mental Health	45	\$ 3,000	135,000	1,620,000
All other participating departments	<u>180</u>	\$ 3,000	<u>540,000</u>	<u>6,480,000</u>
Totals	<u>2,684</u>		<u>\$ 16,199,000</u>	<u>\$ 194,388,000</u>

Source: SAO analysis of procurement card data

About one-third of employees never or infrequently used their cards

At the time of our audit, OA and department officials had not evaluated the extent employees used procurement cards. Our analysis showed over 400 transportation and conservation employees did not use their procurement cards during the 6-month period reviewed. Additionally, another 340 of these departments' employees only used their procurement cards on the average once a month for purchases mostly less than \$100. Table 1.3 summarizes card usage results within each of the four departments reviewed.

Table 1.3: Procurement Cards Never or Seldom Used by Department

Department	Cards Issued	Cards Not Used	Percentage Not Used	Cards Seldom Used	Percentage Seldom Used
Transportation	1,191	216	18	153	13
Conservation	1,037	190	18	187	18
Natural Resources	231	34	15	18	8
Mental Health	45	3	7	7	16
Totals	<u>2,504</u>	<u>443</u>	18	<u>365</u>	15

Source: SAO analysis of procurement card data

Table 1.3 indicates a large number of employees did not have a valid need for procurement cards. Continuing to allow these employees to hold procurement cards represents an unwarranted liability to the state. Department officials offered varying reasons for the number of cards they issued. Transportation and conservation officials considered it cost effective and important for their field staff to be able to purchase needed supplies. Based on our analysis, natural resources officials recognized it is not a sound business practice to allow employees to hold procurement cards when the data indicates they do not need them. They said the number of cards issued will be evaluated to determine if all current cardholders have a continued need for procurement authority.

Authorized transaction limits were excessive

Our analysis of employees' purchases made between January and June 2001 showed most transactions were significantly less than an employee's maximum authorized transaction limit. For example, 55 percent of the employees in the 4 departments reviewed had no individual transactions greater than \$299, but had authorized single transaction limits of \$1,000 or more. In addition, nearly 80 percent of transportation employees had no individual transactions greater than \$999, but had authorized single transaction limits of \$3,000. Table 1.4 summarizes our results by department for the 6-month period reviewed.

Table 1.4: Maximum Single Transaction Amounts by Employee and Department

Maximum Transaction Amounts	Transportation		Conservation		Natural Resources		Mental Health		Totals	
	No.	Percent	No.	Percent	No.	Percent	No.	Percent	No.	Percent
\$0 to \$299	399	41	603	71	125	64	17	40	1144	55
\$300-\$499	135	14	111	13	36	18	9	22	291	14
\$500-\$799	142	14	66	8	27	14	10	24	245	12
\$800-\$999	96	10	56	7	5	3	6	14	163	8
\$1,000 or greater	206	21	11	1	1	1	0	0	218	11
Totals ¹	978	100	847	100	194	100	42	100	2,061	100

¹Total and percent of total are based on the number of cards used during the audit period.

Source: SAO analysis of procurement card data

Total monthly spending limits were also excessive

Our analysis showed over 80 percent of conservation and natural resources employees spent less than \$800 a month, which indicates they did not need a \$3,000 monthly limit. In addition, about 66 percent (540 employees) of transportation employees, with \$10,000 spending limits, spent less than \$5,000 per month. Moreover, of the 113 transportation employees with \$25,000 monthly spending limits, only two of these employees spent more than \$10,000 in one month. Table 1.5 summarizes our results by department for the 6-month period reviewed.

Table 1.5: Average Monthly Spending by Employee and Department

Monthly Expenditures	Transportation		Conservation		Natural Resources		Mental Health		Totals	
	No.	Percent	No.	Percent	No.	Percent	No.	Percent	No.	Percent
\$0 to \$199	212	22	402	47	58	30	12	29	684	33
\$200-\$399	144	15	154	18	46	24	5	12	349	17
\$400-\$799	158	16	148	17	51	26	6	14	363	18
\$800-\$999	58	6	40	5	13	6	4	10	115	6
\$1,000-\$1,999	182	19	90	10	20	10	10	24	302	15
\$2,000-\$2,999	81	8	11	2	5	3	4	9	101	5
\$3,000-\$4,999	82	8	2	1	1	1	1	2	86	4
\$5,000-\$9,999	59	6	0	0	0	0	0	0	59	2
\$10,000-\$25,000	2	0 ²	0	0	0	0	0	0	2	0 ²
Totals ¹	978	100	847	100	194	100	42	100	2,061	100

¹Total and percent of total are based on the number of cards used during the audit period.

²Percentage less than 1 percent.

Source: SAO analysis of procurement card data

Authorizing employees higher spending limits than needed to perform their jobs is not a generally accepted business practice. OA and department officials said management controls are better with the procurement card program than with the previously used purchase order system and do not consider the current authorized spending limits a serious management control issue. Nevertheless, the state's procurement card program permits state employee cardholders to spend up to pre-authorized limits without obtaining prior supervisory approval. Accordingly, higher than necessary spending limits increases the potential for program abuses to occur before

management identifies the problem and can intervene. Our analysis shows the \$194 million annual potential liability for issued cards at June 30, 2001 should have been \$30 million based on card usage.

Conclusion

The procurement card program may offer increased efficiencies to the state, but it also increases risk to the state from potential financial liability. In implementing this program, neither OA nor department officials performed any analyses to mitigate risks by determining 1) which employees needed procurement cards to perform their official duties, and 2) the appropriate dollar amount of spending limits each employee needed. These weaknesses contributed to many employees receiving procurement cards they did not need along with unnecessarily high procurement authority.

Recommendations

We recommend the Commissioner, Office of Administration direct department officials to:

- 1.1 Identify employees who have not used their procurement cards, or have infrequently used their cards since September 30, 2001, and terminate their procurement authority.
- 1.2 Adjust employees' single and monthly dollar transactions limits based on their past procurement activities and their need to perform assigned duties.

Office of Administration Responses

- 1.1 *We agree that purchasing cards should only be issued to those employees that have a legitimate state business need to use the card. We will ask the agencies to perform a review of their cards issued to determine which cards should be canceled.*
- 1.2 *As the Office of Administration investigated the feasibility of a state purchasing card program, we examined the state's FY-97 non-travel payments for invoices less than \$5,000. We found that 93% of the transactions (approximately 925,000) were for amounts less than \$1,000 but they represented only 44% of total dollars expended. Thus, a program that would consolidate the payment of the state's small dollar purchases was needed. We determined that the time and paperwork involved in authorizing, purchasing and paying for these small dollar transactions was not cost justified. We also found that many agencies were not using the purchase order controls for small dollar purchases, but were allowing employees to authorize merchants to direct bill the state for items needed. Thus, a system to document and control these purchases was needed.*

The benefits of the purchasing card program include: elimination of small dollar purchase orders, ease of use in making the purchases, detailed expenditure reports for each card, control of expenditures customized to each card, quick vendor payment (48 hours instead of 30 days) for better vendor relations, reporting purchases from minority and women owned businesses and the ability to consolidate individual payments to many

vendors into one monthly payment to the card company. The implementation of the card program in each agency also includes the signing of an interagency agreement that covers the agency responsibility to ensure that sufficient controls are in place and adequate training is provided for those authorized to make purchases on behalf of the state.

The purpose of the purchasing card program is to facilitate agency purchases of goods costing less than \$1,000 each, with a monthly limit of \$3,000. The individual purchase and monthly dollar limits were set as maximums to encourage agency use of the program. Implementation options provide the flexibility for agencies to reduce allowed amounts per purchase and total purchases in a month to align with each employee's purchasing needs. We will ask the agencies to review their individual and monthly transaction limits and reduce them where needed.

The potential maximum credit liability calculated by the SAO is no greater than the liability that existed prior to implementing the procurement card program. In fact the previous system of allowing employees to direct bill their purchases had no real upper limit in place. The purchasing card provides a more effective mechanism for setting limits and reviewing the detailed spending of each employee.

2. The Procurement Card Program Needs More Safeguards and Oversight

While the procurement card system was intended to be a more cost-effective method of purchasing small-dollar items, it eliminated generally accepted controls over employee purchases. The procurement card program was implemented without adequate controls and guidelines to ensure procurement of only allowable and appropriate items. None of the departments required employees to obtain prior supervisory approval before using their procurement cards to make purchases, and one department did not perform post-supervisory reviews of employee purchases. Our analysis showed the employees 1) purchased various unallowable goods or inappropriate items, and 2) did not adequately record and track items as required by state regulations. Moreover, employees spent nearly \$500,000 on items, such as sporting goods equipment, from out-of-state businesses, which may have been purchased from in-state businesses at similar costs.

Procurement cards streamlined purchasing but increased risks

In using procurement cards to pay for goods and services, some departments have eliminated traditional internal controls and generally accepted business practices over purchasing. The typical purchasing process usually involves a separation of duties between the employee requesting a good or item and a supervisor approving the purchase. A third person then requests the goods and arranges the purchase from a competitively approved vendor and price. The goods are shipped to a central receiving department and accounts payable staff approve the payment after seeing a materials receiving report. This process includes controls to ensure an employee cannot easily buy unnecessary goods, pay too much for a product, direct business to relatives or friends, or divert goods for personal use.

The four departments we reviewed implemented their procurement card programs without traditional controls such as purchase requisitions, purchase orders, and receiving reports. Instead, a cardholder often decides what is needed and from which merchant, receives the item, and approves the payment with no review by other officials. The Commissioner of Administration and department officials stated they implemented the procurement card program to streamline administrative procedures associated with the traditional purchase order system. Accordingly, they said requiring employees to obtain prior approval before making purchases would negate many procurement card program benefits.

Eliminating some of the traditional controls can help agencies reduce the administrative cost of processing small, routine purchases. However, agencies must balance these cost savings against the increased risk of inappropriate card use. The OA state procurement card manual states the card is not intended to avoid or bypass appropriate procurement or payment procedures.

Employees used procurement cards to buy inappropriate and unallowable items

State employees purchased items that were either unallowable or inappropriate. The OA procurement card guidelines specifically prohibit purchase of postage stamps, automotive repairs, telephone equipment, and items for personal use. However, we found conservation employees used their cards for over \$2,700 in postage stamps, and transportation employees used their cards for over \$2,600 in auto repairs. Additionally, a transportation employee purchased wristwatches, cutlery, fishing knives, travel cases and six-pack beverage coolers collectively costing over \$10,000 for resale in the department's employee catalogue store. Although the employee did not purchase these items for her own personal use, the items were purchased for other employees' personal use and not for use in official state business. An OA official stated these purchases were an inappropriate use of procurement cards.

Personal use items that were bought using the procurement cards were not adequately identified and tracked as state property as required by state regulations.³ Transportation officials did not maintain a list of sensitive items employees were required to inventory, and conservation officials limit sensitive items requiring inventory to all firearms, titled and registered equipment such as boat motors, computers, and all mobile and portable two-way radios. Conservation and transportation employees purchased items that were attractive for personal use and could be easily pilfered, but were not identified as state property and inventoried. These items included digital cameras, binoculars, televisions, and power tools.

Attractive items
were not
inventoried

State employees did not give preference to Missouri businesses

State law⁴ requires purchase preference be given to Missouri products and firms when quality is equal or better and the delivered price is the same or less. During the audit period, employees in all four departments used their procurement cards to purchase approximately \$488,223 in goods from non-Missouri vendors (over 9 percent of all procurement card activity) as shown in Table 2.1. Department officials said they thought the "buy-Missouri" preference statute did not apply to purchases made with procurement cards, but only to purchases made via competitive bids. Accordingly, they said employees were not required to give preference to in-state businesses or to obtain supervisory approval before making purchases with out-of-state vendors. An OA official stated the buy Missouri preference applies to procurement card purchases and department officials need to ensure employees follow this requirement when using procurement cards.

³ 15 CSR 40-2.031 requires departments to implement appropriate procedures for adequate control, and perform annual inventories for items considered "attractive or easily pilfered" such as televisions and power tools.

⁴ Sections 34.070 and 34.100, RSMo 2000.

Table 2.1: Summary of Non-Missouri Vendor Purchases by Department

Department	Total Cardholder Expenditures	Total Non-Missouri Expenditures ¹	Percentage
Transportation	\$ 4,094,732	\$ 258,823	6
Conservation	726,632	174,046	24
Natural Resources	237,998	32,180	14
Mental Health	91,748	23,174	25
Totals	\$ 5,151,110	\$ 488,223	9

¹ Mail order or Internet purchases from non-Missouri vendors.

Source: SAO analysis of procurement card data

Officials from these four departments did not ensure in-state vendors were used when possible. For example, limited tests showed transportation employees purchased office and industrial supplies from out-of-state vendors that could have been purchased from in-state vendors. Similarly, conservation employees routinely purchased hunting and fishing equipment, such as fishing vests and binoculars from a Nebraska-based vendor even though the same or similar products were available at the same prices from Missouri-based vendors. A conservation official said some employees prefer to buy from the Nebraska vendor because they have found better quality for the price and faster delivery service.

Cardholders circumvented pre-purchase authorization limit requirements.

We identified several occasions where employees exceeded their single transaction limits of \$1,000 or \$3,000 by splitting charges, which department policies prohibit without prior authorization. Splitting charges is when an employee makes sequential purchases of smaller dollar transactions on the same day to stay below single transaction limits. Table 2.2 shows examples of employees using the same procurement cards to make more than one purchase in the same day and often a few minutes apart from the same vendor. Individually, the transactions fell below the single transaction limits, but the total exceeded the single transaction limit and would require prior purchase approval. We found no documented evidence that supervisors approved these split purchases.

Table 2.2: Same Day and Merchant Transactions Potentially Avoiding Authorization Limits

Department	Transaction Limit	Date	First Transaction	Amount	Second Transaction	Amount	Total
Transportation	\$ 3,000	3-29-01	3:04 p.m.	\$ 2,568	3:12 p.m.	\$1,300	\$ 3,868
Transportation	\$ 3,000	1-22-01	8:10 a.m.	\$ 2,090	8:17 a.m.	\$1,644	\$ 3,734
Conservation	\$ 1,000	3-19-01	No record	\$ 803	No record	\$ 203	\$ 1,006
Mental Health	\$ 1,000	2-28-01	11:29 a.m.	\$ 959	11:32 a.m.	\$ 453	\$ 1,412
Mental Health	\$ 1,000	4-25-01	3:00 p.m.	\$ 956	3:16 p.m.	\$ 331	\$ 1,287
Mental Health ¹	\$ 1,000	1-04-01	No record	\$ 492	No record	\$ 792	\$ 1,230

¹The first transaction includes two \$246 transactions and the second transaction includes three \$246 transactions.

Source: SAO analysis of procurement card data

State employees procured most goods without prior authorization or review

OA and department officials did not require employees to obtain supervisory approval prior to making procurement card purchases unless a purchase exceeded applicable transaction limits of \$1,000 or \$3,000. Our analysis showed 99 percent of procurement card purchases did not exceed these limits. As a result, most card purchases did not require prior approval to ensure items were allowable under card guidelines, or an appropriate use of state funds. Lacking prior supervisory approval of employees' purchases, department officials relied on after-the-fact reviews to check for allowable and appropriate purchases. While officials of three of the four departments performed these post-purchase reviews, conservation officials did not document any such reviews. Table 2.3 shows post-purchase review procedures for the four state department programs reviewed.

A conservation official said post-purchase review by fiscal office staff is not done because all cardholders were trained on their responsibilities and limitations with these cards. He said supervisors also received cardholder training and were aware they were expected to review employee purchases. However, our review of 128 purchases showed no evidence of supervisory review. Department fiscal office staff received cardholder statements from supervisory level staff and assumed supervisors had reviewed the purchases. Fiscal office staff said they rely on the OA to complete additional reviews of the transactions and concluded that all purchases were appropriate since they had not received any negative feedback from OA personnel. An official from the OA-Division of Accounting said division staff spot check some charges as the statements are processed, but they rely on each department to review purchases made.

Table 2.3: Department Post-Purchase Review Process

Department	Procedures
Transportation	<ul style="list-style-type: none">• Supervisory review conducted, documented on 100 percent of transactions.• Limited fiscal office staff review conducted and documented.• Some reliance placed on Office of Administration for final transaction review prior to payment of invoice.• Department quality assurance staff review 10 percent of transactions per quarter to determine cardholder compliance. (ongoing program)
Conservation	<ul style="list-style-type: none">• No documentation of any supervisory review or approval of transactions.• No documented fiscal office staff review of transactions.• No internal audit or quality assurance function conducting transaction reviews.
Natural Resources	<ul style="list-style-type: none">• Supervisory review conducted, documented on 100 percent of transactions• Fiscal office staff (multi-level management) review 100 percent of transactions.• Department internal audit staff conduct limited review of transactions.
Mental Health	<ul style="list-style-type: none">• Supervisory review (intermittent) conducted and documented.• Divisional/Fiscal office staff (intermittent) review conducted and documented.• No internal audit or quality assurance function conducting transaction reviews.

Source: SAO analysis

Conclusion

The absence of generally accepted internal controls, such as supervisory review and approval, in the procurement card program has resulted in employees procuring some unallowable and inappropriate items. The lack of acceptable controls has also resulted in employees violating state statutes requiring preference for procuring goods from Missouri businesses. Although employees are using their procurement cards to buy numerous items that are attractive for personal use and could be easily pilfered, department officials did not always ensure these items were recorded or tracked in accordance with state regulations.

Recommendations

We recommend the Commissioner, Office of Administration direct department officials to:

- 2.1 Establish procedures that require supervisory review and approval for procurement card purchases that involve items that can be easily converted to personal use or pilfered, and require documented independent review of a sample of purchases.
- 2.2 Establish guidelines that ensure compliance with state law regarding preference being given to Missouri products and businesses and that all out-of-state purchases receive documented supervisory approval.
- 2.3 Implement more effective inventory controls that permanently identify and record merchandise typically considered attractive for personal use.

Office of Administration Responses

- 2.1 *Per the interagency agreement with OA, the agency has accepted "...full responsibility to review State Purchasing Company (card) statements, ensure that each purchase included on the statement is for official state business only, is payable from the appropriations of the Agency and is less than \$1,000 (unless approval exception)." When an agency authorizes an employee to use a purchasing card, it is pre-approving his use of the card for purchases within the purchasing card guidelines. It is then up to the agency to have sufficient internal controls in place to ensure those guidelines are followed. A monthly statement is received by the agency for each card. The agency has also agreed to "...ensure that all disbursement data entering the accounting system is accurate, authorized, properly coded, adequately documented and that the good(s) purchased through use of the Card was received by the Agency." We will remind agencies that their procedures should ensure that the purchases of such items are properly controlled.*
- 2.2 *We will direct agencies to establish necessary controls that will ensure compliance with 34.070 RSMo.*
- 2.3 *The interagency agreement with OA requires that "The Agency shall maintain the necessary internal controls and implement recommendations resulting from audits by OA and/or other independent audits of the Program including the State Auditor." We will*

remind the agencies to establish the controls necessary to ensure compliance with their interagency agreement and recommendations of the State Auditor. If we find an agency cannot comply with the terms of the agreement, we have the authority to terminate the use of the state purchasing card program in that agency.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

Our objectives were to determine whether state officials implemented effective procedures and controls to ensure (1) the issuance of procurement cards and purchasing limits for state employees were commensurate with their assigned job responsibilities, and (2) employees used procurement cards in accordance with state procurement statutes and regulations.

Scope and Methodology

To examine processes and requirements for the procurement card program, we collected documentation and did interviews at the OA and selected departments. We reviewed the OA's program objectives, structure, expectations of department officials, interagency agreements, and general program policies and procedures. We interviewed the OA's state program administrator and responsible officials from selected departments. We also obtained and reviewed selected departments' specific programs and the policies and procedures established for cardholders.

To analyze procurement card transactions, we obtained statewide procurement card expenditure data from United Missouri Bank (the contracted program administrator) for the period January 1, 2001 through June 30, 2001. This data showed procurement activity by department, employee, account, date, merchant, product, and amount. Using this data, we analyzed the percentage of employees assigned cards and their use, and verified open accounts to cardholder agreements to ensure that all cardholders could be identified. Table I.1 summarizes the number of cards issued and the charges during the 6-month period reviewed for the 11 departments participating in the procurement card program.

Table I.1: Procurement Cards Used by 11 Departments

Department	Cards Issued ¹	Charges	Percentage of Total
Transportation	1,191	\$ 4,094,732	78.2
Conservation	1,037	726,632	13.9
Natural Resources	231	237,998	4.5
Mental Health	45	91,748	1.8
Public Safety	19	30,928	0.6
Office of Administration	72	21,673	0.4
Office of State Courts Administrator	16	17,124	0.3
Health	47	9,466	0.2
Elementary and Secondary Education ²	6	2,323	
Secretary of State ²	17	419	
State Auditor's Office ²	3	119	
Totals	<u>2,684</u>	<u>\$ 5,233,162</u>	

¹As of June 30, 2001

²Percentage less than one-tenth of a percent

Source: Prepared by SAO based on procurement card data

APPENDIX

We also identified the four departments (conservation, mental health, natural resources, and transportation) which had the highest procurement card expenditures during that period and quantified all transactions by dollar value to establish usage level increments. We determined actual card use based on the transactions and compared these transactions to allowable credit limits. Based on our analysis, we identified cardholders who did not use or seldom used the cards, and computed the total potential state liability based on the volume of outstanding cards.

To conduct a detailed review of card use, we selected a stratified sample from the population of transactions for each of the four departments. We used three categories of transaction amounts (1) below \$250 (2) \$250 to \$750, and (3) over \$750. Based on this criteria, we judgmentally selected 552 transactions for review: 221 from transportation, 128 from conservation, 123 from natural resources, and 80 from mental health. We then reviewed supporting documentation such as receipts for each selected transaction to evaluate the item purchased, supervisors' authorization, and compared the purchased item against the department's acceptable procurement policies and procedures. In addition, we determined whether the purchased item was from an in-state vendor in accordance with applicable state laws.

We conducted random field visits at transportation and conservation locations to evaluate specific employee transactions and the methods used to record and track transactions we selected for testing.

We obtained comments on the contents of this report from the Commissioner of Administration and other key officials from the OA during a meeting on April 30, 2002. We also obtained comments from officials responsible for these cards at the respective departments. We incorporated these comments into the report as appropriate.

We performed our audit work between July 2001 and January 2002.